

## COMPELLING ADVANTAGES OF SCALE

**Larger players will flourish at the expense of smaller companies due to the compelling advantages of both local and multi-regional share leadership.**

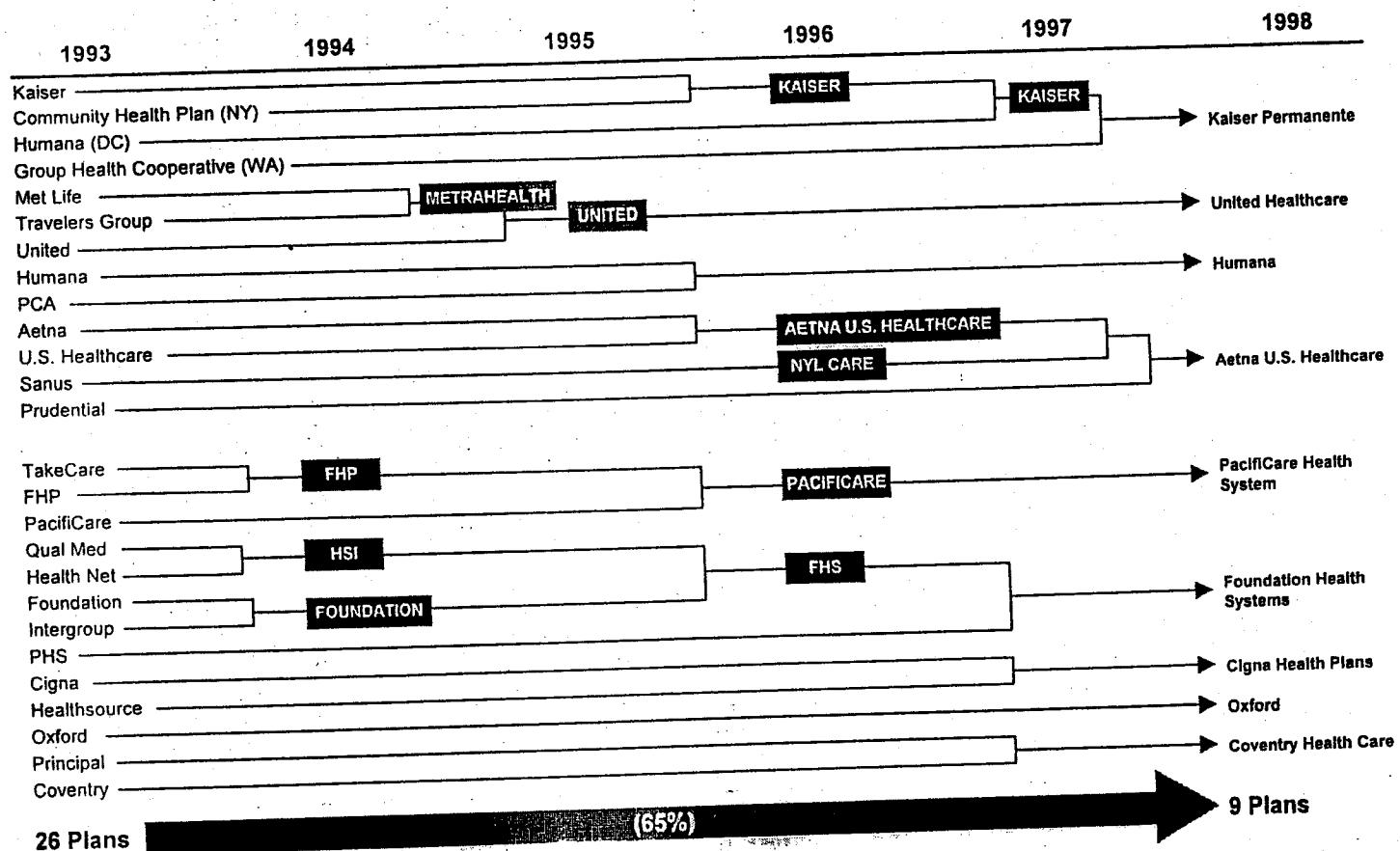
- Since CareFirst engaged Andersen Consulting in March 1999, the following significant managed care transactions have taken place:

Date Completed	Target	Acquiror	Transaction Value (\$mm)	Rationale
4/3/00	Aetna (NYLCare members)			
5/25/00	BCBS of Maine	BCBS of Texas	\$420	Consolidation of local market share
3/1/00	Rush Prudential	Anthem BCBS	120	Consolidation of local market share (with BCBS NH)
11/16/99	BCBS of Colorado	WellPoint	200	New market expansion
10/27/99	BCBS of New Hampshire	Anthem BCBS	165	New market expansion
8/6/99	Prudential Healthcare	Anthem BCBS	120	New market expansion
		Aetna	1,000	Consolidation of local market share (with US Healthcare)

- Moreover, it is important to note that five of the six transactions listed involved BCBS plans
- Key advantages of scale include access to capital, administrative efficiencies, contracting leverage and ability to spread risk

# ONGOING CONSOLIDATION TREND

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Source: Andersen Consulting.

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# MANAGED CARE OVERVIEW

The managed care industry is undergoing a period of significant change and uncertainty.

## Positives

- Favorable pricing cycle
- Industry focus has shifted from growth to profitability
- Accelerating consolidation trend
- Leaders undergoing strategic repositioning
- Bellwether companies appear on firmer financial footing

## Negatives

- Health care costs continue to rise
- Periodic earnings disappointments
- Providers unable to manage risk
- Managed care backlash
- Governmental program reimbursement
- Higher penetration levels
- Merger integration continues to be challenging
- Continuing systems implementation "foul-ups"
- Litigation

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# ENVIRONMENTAL SCAN

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*Presentation to the Board of Directors*

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DECEMBER 4, 2000

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